



Michael J. Driscoll
Town Manager

TOWN OF
WATERTOWN
Office of the Town Manager

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To: Honorable Town Council

From: Michael J. Driscoll, Town Manager

Date: July 11, 2013

RE: Agenda Item – Transfer of Funds Request

As you are aware, the Honorable Town Council voted to refer the two Fiscal Year 2012 Management Letter Recommendations to the Committee on Budget & Fiscal Oversight for policy guidance (see attached committee report, Fiscal Year 2012 Management Letter and excerpt from February 12, 2013 Town Council minutes).

The Committee on Budget & Fiscal Oversight met on Monday, July 8th regarding the above mentioned matter (see attached meeting notice).

At that meeting, the Committee voted to recommend to Council to move forward with the proposed services of Sullivan, Rogers & Company, LLC in order to address the related Fiscal Year 2012 Management Letter Recommendation and to improve payroll processing.

If the Honorable Town Council adopts the Committee on Budget & Fiscal Oversight's recommendation, I respectfully request the attached transfer be considered at the July 16, 2013 Town Council Meeting.

Thank you for your consideration in this matter.

cc: Honorable School Committee
Honorable Library Board of Trustees
All Department Heads
John T. Loughran, Director of Business Services
Gayle McCracken, Director of Human Resources

TRANSFER AMOUNT \$55,500

FROM: FY 13 TOWN COUNCIL RESERVE
0111152-570780

\$ 55,500

TO: FY 13 MUNIS PAYROLL PROJECT
0194000-530325

\$ 55,500

I hereby certify to the availability, authority of funding source, mathematical accuracy
and appropriate fiscal year.

DATE

TOWN AUDITOR

Town of Watertown
Committee of the Budget & Fiscal Oversight
Meeting: February 4, 2013
Report: February 12, 2013

The Committee convened at 6 pm on Monday, February 4, 2013 in the 3rd Floor Louis Andrews Conference Room. Present at the meeting were Vincent Piccirilli, chair; Angeline Kounelis, vice-chair; Cecilia Lenk, secretary; Town Manager Michael Driscoll; Town Auditor Tom Tracy; and Frank Biron from Melanson Heath and Company. The purpose of the meeting was to review the FY2012 Independent Auditors' Report of the Town's finances and Management letter, prepared by Melanson, Heath and Company.

Mr. Biron presented the FY2012 Annual Financial Statement for the year ended June 30, 2012 (available as separate attachment). He commended the Town for making tremendous progress on closing books and completing the FY2012 audit in a timely manner. Key findings of the audit include:

- As in prior years, the town received a clean opinion with no exceptions in accordance with generally accepted accounting principles (GAAP).
- The Town continues to do an excellent job receiving taxes and liens.
- At the close of FY2012, the Town had total assets, including capital assets, of \$165M.
- The Town's long-term debt (i.e. bonds payable) at the close of FY2012 was \$43,092,868, a decrease of \$1,607, 499 from FY2011.
- At the close of FY2012, total Town assets exceeded liabilities by \$94M (total net assets).
- The Town had an unassigned fund balance of the general fund of \$9.6M or 9.3% of total general fund expenditures, where bonding agencies want to see between 5 and 10%.
- The Town's credit rating remains Aa3 from Moody's.
- Water and Sewer Enterprise Funds remain in a strong position.
- GASB has issued new rules for accounting and financial reporting for pensions. Beginning in FY2015, the Town's portion of the actuarially accrued pension liability (including the \$154M unfunded OPEB liability) will be shown on the Town's financial statement of net assets (page 11).

Mr. Biron next presented the FY2012 Management Letter for the year ended June 30, 2012 (available as separate attachment). There are no material weaknesses or deficiencies in the Town's finances. Two recommendations from FY2011 audit remain outstanding:

- Integrate compensated absences (vacation and sick time) accounting for both Town and School staff into the Town's financial systems.
- Improve accounting and monitor activity over Police Detail Agency Fund.

Mr. Tracy presented preliminary plans to address both these issues with a goal of resolving them by FY2014 (see attached documents).

Mr. Biron also noted that Melanson, Heath has not completed the Single Audit Report of the three federally-funded programs at the School Department, but expected completion is in February. Melanson, Heath is also currently auditing the School's Student Activity Funds for FY2011 and FY2012, but have not received the necessary information they first requested in November, 2012. The Committee recommended that Town Manager Driscoll contact the Superintendent of Schools regarding this issue.

The Committee voted unanimously to recommend to the Town Council:

1. Approval of the FY2012 Audit, with the understanding that the School Department FY2012 Single Audit Report and the FY2011 and FY2012 Student Activity Fund Audits will be completed shortly;
2. That Melanson, Heath and Company be authorized to proceed with the FY2013 audit under the terms of their current contract; and that the Town solicit bids for the FY2014 audit;
3. That the Management Letter issues be referred back to the Budget and Fiscal Oversight Committee for further discussion and policy guidance.

The meeting adjourned at 7 pm.

Prepared by Cecilia Lenk

2-4-13

DRAFT

Police Detail Write-Off Policy

The Police Chief (or his Designee) and the Town Auditor will meet twice a year in January and July in order to review outstanding Police Detail Receivables. The purpose of these meetings will be for the Police Department Representative and the Town Auditor to determine which Police Detail Receivable accounts/amounts, if any, are deemed uncollectable.

Any agreed upon accounts/amounts deemed uncollectable will be put in writing and sent to the Town Council and the Town Manager for funding purposes.

The Town Manager will forward to the Town Council a transfer request of funds in order to fund the Police Detail Agency Fund by the amounts deemed uncollectable.

Once the transfer is approved by the Town Council, the accounts/amounts identified will be deemed to have been written off.

No account/amount will be deemed uncollectable unless the receivable has been outstanding for at least 9 months and at least 3 requests for payments have been made.



Certified Public Accountants

rec'd 2-4-13

SULLIVAN, ROGERS & COMPANY, LLC

Corporate Place I, Suite 204 • 99 South Bedford Street

Burlington, Massachusetts 01803

P • 781-229-5600 F • 781-229-5610 www.sullivan-rogers.com

January 3, 2013

Mr. Thomas J. Tracy
Town Auditor
Town of Watertown
149 Main Street
Watertown, Massachusetts 02472

Dear Mr. Tracy:

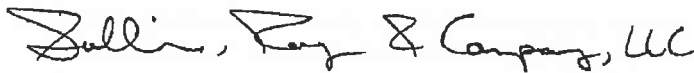
Thank you for the opportunity to present you with an engagement letter to perform consulting services to the Town of Watertown (Town). The purpose of our services are to assist the Town in its endeavor to improve its system of internal controls and its use of MUNIS to process payroll and track compensated absences. Our services will include the following:

Services	Estimated Hours	Estimated Fee
Assist the Town implement <u>MUNIS Payroll Accruals</u> . Accrual types include vacation, sick, personal, holiday, comp time. We will assist in determining the method in which each accrual type is earned for each bargaining unit and for both hourly and salary employees. We will assist the Town in determining the most appropriate method in MUNIS to record time earned and used. We will assist the Town with the entire implementation.	200	\$30,000
Assist the Town with implementing <u>MUNIS Time and Attendance</u> . The MUNIS time and attendance program is designed to eliminate paper processing and manual record keeping by using the MUNIS Record Keeper. The Time and Attendance program interfaces with MUNIS payroll and take the place of manual records currently being maintained.	120	\$18,000
Assist in reviewing MUNIS user permissions related to the processing of payroll, time and attendance and payroll accruals.	10	\$1,500
Assist with implementing <u>MUNIS Payroll Encumbrances</u> for the School Department. MUNIS has the ability to encumber employees' salaries and benefits at the beginning of the year for the entire year. The encumbrance is based on the actual calculation of salaries and benefits in the MUNIS payroll tables. Therefore, on day one of the school year, management will know exactly what is being used and what is available in the salaries and benefits budget. As payroll is expended each period, the encumbrance is automatically liquidated equal to the amount expended.	40	\$6,000
Total	370	\$55,500

Our fee for these services will be based on actual time at our hourly rate of \$150. Our estimate is based on anticipated cooperation from your personnel and the assumption that unexpected circumstances will not be encountered during the engagement. If significant additional time is necessary, we will discuss it with you and arrive at a new time estimate before we incur the additional costs. Our invoices for these fees will be rendered as work progresses and are payable on presentation.

We appreciate the opportunity to be of service to the Town of Watertown and believe this letter accurately summarizes the significant terms of our engagement. If you have any questions, let us know. If you agree with the terms of the engagement as described in this letter, please sign the enclosed copy and return it to us.

Sincerely yours,



Sullivan, Rogers & Company, LLC

RESPONSE:

This letter correctly sets forth the understanding of the Town of Watertown. The undersigned has the ability to contractually bind the Town of Watertown.

By: _____

Title: _____

Date: _____

TOWN OF WATERTOWN, MASSACHUSETTS

Management Letter

For the Year Ended June 30, 2012

TABLE OF CONTENTS

	<u>PAGE</u>
INTRODUCTORY LETTER	1
STATUS OF PRIOR YEAR RECOMMENDATIONS:	
1. Improve Compensated Absences Accounting	3
2. Improve Accounting and Monitor Activity over the Police Detail Agency Fund	3



MELANSON HEATH & COMPANY, PC

CERTIFIED PUBLIC ACCOUNTANTS
MANAGEMENT ADVISORS

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www.melansonheath.com

To the Town Manager and Town Council
Town of Watertown
Watertown, Massachusetts

In planning and performing our audit of the financial statements of the Town of Watertown, Massachusetts as of and for the year ended June 30, 2012, in accordance with auditing standards generally accepted in the United States of America, we considered the Town of Watertown's internal accounting control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses. In addition, because of the inherent limitation in internal control, including the possibility of management's override of controls, misstatements due to error or fraud may occur and not be detected by such controls. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

Additional Offices:

Greenfield, MA • Ellsworth, ME • Nashua, NH • Manchester, NH

During our audit we became aware of certain matters that we believe represent opportunities for strengthening internal controls and operating efficiency. The recommendations that accompany this letter summarize our comments and suggestions concerning those matters.

This communication is intended solely for the information and use of management, Town Manager and Town Council, others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

After you have had an opportunity to consider our comments and recommendations, we would be pleased to discuss them with you.

Melanson, Heath + Company P.C.

February 1, 2013

STATUS OF PRIOR YEAR RECOMMENDATIONS:

1. Improve Compensated Absences Accounting

Prior Year Issue:

In prior years, we recommended that the Town centralize and automate the accounting for employee compensated absences.

Current Year Status:

The Town and School Department continue to maintain compensated absence records on separate systems that are not integrated with the Town's payroll systems. For the fiscal 2012 audit the Town's compensated absence summary originally was compiled using fiscal 2013 salaries/wages instead of fiscal 2012 and the School Department's summary did not include all eligible employees. Additionally, during our testing of the Town's compensated absences, we noted discrepancies between the compensated absence summary reports and supporting documentation for employees' rates of pay and available time. These issues contributed to delays in completing the annual audit.

Further Action Needed:

We continue to recommend that the Town and School Department integrate the accounting for employee compensated absences in the MUNIS System in order to increase efficiency, provide improved controls, and create a better audit trail. We also recommend that the compensated absence summaries be reviewed more carefully to ensure accuracy. This will improve accountability over the compensated absence liability and will help accelerate the year-end audit process.

2. Improve Accounting and Monitor Activity over the Police Detail Agency Fund

Prior Year Issue:

In the prior year, we recommended the Town establish a police detail receivable account in the general ledger, reconcile it to the Police Department records, and formalize a write-off policy for uncollectable accounts. Also, the cash basis deficit fund balance should be added to the collectable receivable amounts to determine whether a true fund deficit exists. If a true deficit exists,

an analysis should be performed to identify the cause and determine a corrective action plan.

Current Year Status:

No receivable account was reported in the general ledger, nor formal write-off policies established during fiscal 2012.

Further Action Needed:

We continue to recommend that a receivable account be established in the general ledger, that it be reconciled to the Police Department, and that a formal uncollectable accounts write-off policy be established.

Excerpt from February 12, 2013 Town Council Minutes

MOTION AND VOTE: Councilor Piccirilli moved to bring forward **agenda item 9B**, seconded by Councilor Donohue and adopted by unanimous voice vote with Councilors John A. Donohue, Susan G. Falkoff, Anthony Palomba, Angeline B. Kounelis, Cecilia Lenk, Vincent J. Piccirilli, Jr., Kenneth M. Woodland, Vice President Mark S. Sideris and Council President Mark S. Sideris voting in the affirmative.

9b) Committee on Budget and Fiscal Oversight [report](#) and action on the Fiscal Year 2012 Audit – Vincent J. Piccirilli, Chair. Councilor Piccirilli read the Committee report. Councilor Donohue moved to accept the report, seconded by Councilor Piccirilli and adopted by unanimous voice vote with Councilors John A. Donohue, Susan G. Falkoff, Anthony Palomba, Angeline B. Kounelis, Cecilia Lenk, Vincent J. Piccirilli, Jr., Kenneth M. Woodland, Vice President Mark S. Sideris and Council President Mark S. Sideris voting in the affirmative

8. INFORMATIONAL PRESENTATIONS:

a) Presentation on the Fiscal Year 2012 Audit [Report](#) and [Management Letter](#) – Frank Biron, CPA, Melanson, Heath & Company, P.C. Mr. Frank Biron provided an overview of the 2012 Audit report and Management Letter. There being no questions, the Chair asked for a series of motions related to the BFO Committee report action items as follows:

VOTE ON COMMITTEE REPORT'S ACTION ITEM: Councilor Piccirilli moved to approve the Fiscal Year 2012 Financial Statement and Management Letter with the understanding that the School Department's Fiscal Year 2012 Single Audit Report and Fiscal Year 2011-2012 Student Activity Fund audits be completed shortly, seconded by Councilor Kounelis and adopted by unanimous voice vote with Councilors John A. Donohue, Susan G. Falkoff, Anthony Palomba, Angeline B. Kounelis, Cecilia Lenk, Vincent J. Piccirilli, Jr., Kenneth M. Woodland, Vice President Mark S. Sideris and Council President Mark S. Sideris voting in the affirmative.

VOTE ON COMMITTEE REPORT'S ACTION ITEM: Councilor Piccirilli moved to recommend Melanson Heath, Co. proceed with the Fiscal Year 2013 Audit under terms of their contract, seconded by Councilor Lenk and adopted by unanimous voice vote with Councilors John A. Donohue, Susan G. Falkoff, Anthony Palomba, Angeline B. Kounelis, Cecilia Lenk, Vincent J. Piccirilli, Jr., Kenneth M. Woodland, Vice President Mark S. Sideris and Council President Mark S. Sideris voting in the affirmative.

VOTE ON COMMITTEE REPORT'S ACTION ITEM: Councilor Piccirilli moved that the Council recommends that the Town solicit bids for firms to perform the Fiscal Year 2014 Audit, seconded by Councilor Woodland and adopted by unanimous voice vote with Councilors John A. Donohue, Susan G. Falkoff, Anthony Palomba, Angeline B. Kounelis, Cecilia Lenk, Vincent J. Piccirilli, Jr., Kenneth M. Woodland, Vice President Mark S. Sideris and Council President Mark S. Sideris voting in the affirmative.

VOTE ON COMMITTEE REPORT'S ACTION ITEM: Councilor Piccirilli moved that the two Management Letter issues be referred back to the Budget and Fiscal Oversight subcommittee for policy guidance, seconded by Councilor Woodland and adopted by unanimous voice vote with Councilors John A. Donohue, Susan G. Falkoff, Anthony Palomba, Angeline B. Kounelis, Cecilia Lenk, Vincent J. Piccirilli, Jr., Kenneth M. Woodland, Vice President Mark S. Sideris and Council President Mark S. Sideris voting in the affirmative.



Watertown Town Council

Administration Building
149 Main Street
Watertown, MA 02472
Phone: 617-972-6470

ELECTED OFFICIALS:

Mark S. Sideris,
Council President

Stephen P. Corbett,
Vice President

John A. Donohue,
Councilor At Large

Susan G. Falkoff,
Councilor At Large

Anthony Palomba,
Councilor At Large

Angeline B. Kounelis,
District A Councilor

Cecilia Lenk,
District B Councilor

Vincent J. Piccirilli, Jr.,
District C Councilor

Kenneth M. Woodland,
District D Councilor

MEETING NOTICE 2013

COMMITTEE OF THE BUDGET & FISCAL OVERSIGHT MONDAY, JULY 8, 2013 @ 7:00 PM COUNCIL OFFICE ADMINISTRATION BUILDING

Purpose is to make recommendations on the open action items from the FY12 audit:

1. Integrate compensated absences (vacation and sick time) accounting for both Town and School staff into the Town's financial systems.
2. Improve accounting and monitor activity over Police Detail Agency Fund

Vincent J. Piccirilli, Jr., Chair

cc: Vincent J. Piccirilli, Jr, Chair
Angeline B. Kounelis, Vice Chair
Cecilia Lenk, Secretary
Honorable Town Council
Town Manager
Town Auditor
Town Treasurer/Collector
School Business Manager
Police Chief